CONCURRENCE IN SENATE AMENDMENTS
AB 1445 (Haney)
As Amended September 5, 2025
Majority vote

SUMMARY

Authorizes any city or county to establish one downtown revitalization and economic recovery financing district (district).

Senate Amendments

1) Specify labor requirements for projects receiving tax revenue.

2) Requires that 30% of the revenues of a district outside of San Francisco support the required affordable housing units.

3) Provide additional clarifying and technical amendments.

COMMENTS

1) *Adaptive Reuse.* Adaptive reuse is the process of converting an existing non-residential building to housing. The ability to adaptively reuse a building is highly dependent on the initially designed use. For example, uses such as warehouses and big box retail are not generally suitable to adaptive reuse, because their tall ceilings, single stories, and rudimentary plumbing would need to be completely redone to be appropriate for human habitation. Office buildings maintain some potential for conversion, because their multi-floor layout is conducive to housing; however, the large configuration of most office buildings makes it difficult to provide the necessary light and air that is required for residential units. For these conversions to occur, it would also need to be financially attractive to the property owner – something that has increased due to the sharp downturn in the downtown office market since the beginning of the COVID-19 pandemic. However, other commercial properties, like hotels and motels, are more conducive to adaptive reuse, since they already have separate residential units, often with bathrooms.

2) *Recent State Adaptive Reuse Efforts*. One of the state's primary efforts to address homelessness during the COVID-19 pandemic involved turning existing hotels and motels into housing for individuals experiencing homelessness, known as Project Homekey. These uses are already divided into quarters designed for short-term human habitation and can readily be converted to housing with the addition of kitchens. As of February 29, 2024, the Legislative Analyst's Office reported that Project Homekey has funded 250 projects and assisted 15,319 units of housing with a total expenditure of $3.35 billion. The cost of converting a unit under Project Homekey, at $218,683 per unit, is less than the current cost of constructing a new multifamily unit which averages at a little under $600,000 a unit as calculated by a recent report from the UC Berkeley's Terner Center for Housing Innovation, *Making it Pencil: the Math of Housing Development-2023*. This report found that for a multifamily mixed-use project with five stories of residential and a nonresidential ground floor, the average cost per unit in the Bay Area is $637,000 in the East Bay and $623,000 in the South Bay, $594,000 in Los Angeles, and $508,000 in Sacramento.

The Legislature has also enacted other policies to facilitate the conversion of commercial properties into housing. This includes:

a) SB 6 (Caballero, 2022) which enacted the Middle Class Housing Act of 2022, which established housing as an allowable use on any parcel zoned for office or retail uses.

b) AB 2011 (Wicks, 2022) established a streamlined, ministerial approval process, not subject to the California Environmental Quality Act (CEQA), for certain infill multifamily affordable housing projects that are located on land that is zoned for retail, office, or parking.

3) *AB 2488 (Ting) of 2024***.** AB 2488 (Ting), Chapter 274, Statutes of 2024 allowed San Francisco to establish a district, but placed many provisions restricting its use. AB 2488 did not grant a district access to a share of property tax increment like other tax increment financing tools as EIFDs or CRIAs, which capture property tax prior to projects being built. Instead, it takes increment generated by a specific project and returns it to the project's owner, rather than allowing those funds to flow to San Francisco's general fund. Among its many provisions, AB 2488 specified the following:

a) Allowed San Francisco to create a district to finance commercial-to-residential conversion projects with incremental tax revenues generated by commercial-to-residential conversion projects and outline the districts: formation process, governance structure, powers, financing plan, payment mechanics, affordability requirements, labor standards, and accountability measures.

b) Allowed the San Francisco Board of Supervisors to form a district by adopting a resolution that:

i) States the intent to form a district.

ii) Describes the district's boundaries, which must be limited to specified areas of downtown San Francisco.

iii) States the need for, and the goals of, the district.

iv) States the district will use incremental property tax revenue to finance these activities.

v) Fixes a time and place for a public hearing on the proposed financing plan. At the hearing, the Board of Supervisors can approve or deny the financing plan.

c) Allowed the district to use incremental property tax revenues generated by commercial-to-residential conversion projects that opt into the district.

d) Required the district to create a financing plan it must approve at three public hearings regarding the plan. The first meeting is for the district to present the financing plan, answer public questions, and consider public comments. The second meeting is to consider public comments and take action to approve, modify, or reject the financing plan. The third meeting is to adopt a resolution or enact a resolution to approve the plan and create the district, provided the Board of Supervisors approved the plan at its meeting. The district must meet specified noticing requirements for these meetings.

e) Required the financing plan to comply with specified conditions and outlines certain actions the district will take. The conditions and actions outlined AB 2488 included obligations that the financing plan:

   i) Include a map and legal description of the proposed district.

   ii) Describe the potential commercial-to-residential conversion projects in the district. Eligible projects can be mixed-use, but must dedicate at least 60% of the square footage for residential use.

   iii) Require each project that includes nonresidential development to develop residential and nonresidential portions of the development concurrently, as specified.

   iv) Require the incremental tax revenues generated by each individual commercial-to-residential conversion project be distributed back to that same project to finance necessary development costs of the project. The amount a project receives cannot be greater than the incremental tax revenues generated by that same project for a period no greater than 30 years or until the district ceases to exist. This amount is limited to the incremental tax revenues generated by residential use in the project as specified.

   v) Require that distributions transfer to the new property owner if the project is sold.

   vi) Include a date when the district ceases to exist no more than 45 years from the date the district distributes funding to the first project.

   vii) Analyze the cost to San Francisco to provide facilities and services to the area of the district before and after its development, which must include an analysis of the tax, fee, charge, and other revenues San Francisco expects to receive in the area of the district.

   viii) Require, if a project proposes to remove or demolish any residential units, a plan to protect or replace those units, and relocate residents consistent with existing law.

   ix) Prohibit the district from receiving property tax increment that would go to other taxing entities.

f) Provided that no affordability requirements apply to the first 1.5 million square feet of opted-in commercial-to-residential conversion projects. After the first 1.5 million square feet are developed, projects must comply with one of the following affordability requirements:

   i) At least 5% of total units for rent are affordable to very low-income households or the local inclusionary requirement, whichever is higher.

   ii) At least 10% of total units for rent are affordable to lower- income households or the local inclusionary requirement whichever is higher.

iii) At least 10% of total units for sale are affordable to moderate-income households, or the local inclusionary requirement, whichever is higher.

g) Commercial-to-residential projects that opt in to receive funding are considered public works and must pay prevailing wage. These projects must also comply with labor standards adopted by the Board of Supervisors. If the Board of Supervisors does not adopt labor standards, then the project cannot receive incremental tax revenue or net available revenue.

h) Required the district to take the following actions related to annual reports:

i) Hold an annual public hearing.

ii) Adopt an annual report on or before June 30th each year that includes specified information on the annual actions of the district.

iii) Make written copies of the draft annual report available to the public 30 days before the public hearing.

iv) Post the draft annual report on the district's website.

v) If the district fails to adopt the annual report by June 30th, the district shall not allow for any additional projects to opt into receiving funds from the district.

i) Every ten years, the district must consider whether the statutory requirements of the district continue to be met, or whether amendments to the district's financing plan are needed.

According to the Author
"As a result from the sharp decline in return-to-office rates during the Covid-19 pandemic, and subsequent suburban sprawl patterns, many of California's downtowns are failing to return to pre-pandemic rates of visitation, revenue-generating dollars, and foot traffic. Office vacancy rates in cities across the state continue to hover around 30 percent, while commercial property values are in a sharp decline.

"While there has been interest in converting office spaces into mixed-use housing, many developers are unable to actually carry out conversions due to costly, but necessary, upgrades and structural changes to allow for housing to be built. AB 1445 would provide necessary tools to support the creation of affordable, mixed-use housing on former commercial spaces in downtowns across California, giving way to increased foot traffic and sustainable downtown neighborhoods. By allowing cities to opt into a tax increment financing model, AB 1445 will provide much-needed financing for office-to-housing conversions.

"At a time when cities across the state face budget shortfalls, we cannot afford to allow our downtowns, the main cultural, economic, and revenue-generating districts of California's cities, to crumble."

Arguments in Support
According to a coalition in support, "...as a result of the sharp decline in return-to-office rates during the Covid-19 pandemic, and suburban sprawl, many of California's downtowns are failing

to return to pre-pandemic rates of visitation, revenue-generating dollars, and foot traffic. Office vacancy rates in cities across the state continue to hover around 30 percent, and commercial property values are in a sharp decline – all while California faces economic uncertainty. AB 1445 would provide necessary tools to support the creation of affordable, mixed-use housing on former commercial spaces in downtowns across California.

"At a time when cities across the state face budget shortfalls, we cannot afford to allow our downtowns – the main cultural, economic, and revenue-generating districts of California's cities – to crumble. AB 1445 will help fund key projects that will revitalize California's downtowns by capturing property tax increases in downtown areas that are most in need of economic support."

Arguments in Opposition
According to the State Association of Auditor-Controllers, "While converting vacant office buildings to housing is a commendable goal, we believe the proposed bill aims to revitalize redevelopment in a new way but has several fundamental design flaws. Given that this concept was only recently approved through AB 2488 just for San Francisco, it represents an unproved new model that needs further refinement. In San Francisco, the County Controller and County Tax Collector exist within the City's organizational structure and thus they may be able to internally coordinate to fill holes in the prior legislation. However, that is not true of other jurisdictions in which Cities may create these districts which would impose responsibilities on County Auditor-Controllers without sufficient legal structure to implement.

These fundamental design flaws will cause substantial challenges in property tax administration of this new type of district, a Downtown revitalization and economic recovery financing district..."

FISCAL COMMENTS

According to the Senate Appropriations Committee:

Staff estimates that the Department of Industrial Relations (DIR) would incur unknown, potentially significant ongoing workload costs in future fiscal years for oversight and enforcement activities related to prevailing wage and apprenticeship standards requirements on projects constructed pursuant to the provisions of this bill. There could be some penalty revenue gains to partially offset these costs. Actual costs and penalty revenues would depend upon the number of districts formed pursuant to the bill, the number of qualifying projects constructed under this bill, and the number of complaints and referrals to the Division of Labor Standards and Enforcement that require enforcement actions, investigations, and appeals. (State Public Works Enforcement Fund).

VOTES:

ASM LOCAL GOVERNMENT: 9-0-1
YES: Carrillo, Hoover, Pacheco, Ramos, Ransom, Blanca Rubio, Stefani, Ward, Wilson
ABS, ABST OR NV: Ta

ASM HOUSING AND COMMUNITY DEVELOPMENT: 11-0-1

YES: Haney, Patterson, Ávila Farías, Caloza, Garcia, Kalra, Lee, Quirk-Silva, Ta, Wicks, Wilson
ABS, ABST OR NV: Tangipa

ASSEMBLY FLOOR: 63-0-16
YES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Calderon, Caloza, Carrillo, Connolly, Davies, Elhawary, Flora, Fong, Gabriel, Garcia, Gipson, Mark González, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Solache, Soria, Stefani, Ta, Valencia, Wallis, Ward, Wilson, Zbur, Rivas
ABS, ABST OR NV: Bryan, Castillo, Chen, DeMaio, Dixon, Ellis, Gallagher, Jeff Gonzalez, Hadwick, Lackey, Macedo, Nguyen, Sanchez, Sharp-Collins, Tangipa, Wicks

UPDATED

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